

**BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.**

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Joint Application of: :  
: :  
AMERICAN AIRLINES, INC. :  
BRITISH AIRWAYS PLC :  
FINNAIR OYJ :  
IBERIA LÍNEAS AÉREAS DE ESPAÑA, S.A. : DOT-OST-2008-0252  
ROYAL JORDANIAN AIRLINES :  
: :  
under 49 U.S.C. §§ 41308 and 41309 for :  
approval of and antitrust immunity for :  
alliance agreements :  
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**[PUBLIC] JOINT APPLICANTS' CONSOLIDATED RESPONSE TO  
ORDER 2008-12-11**

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[PUBLIC] JOINT APPLICANTS' CONSOLIDATED RESPONSE TO  
ORDER 2008-12-11

The Joint Applicants provide the following consolidated response to Order 2008-12-11, 12/19/08, requesting additional information. We respectfully urge the Department to complete its review of this information (which is significantly more extensive than what other proposed alliances have provided in the past) as soon as possible and to issue a scheduling order quickly. It is in the public interest for the Department to promote interalliance competition given the Star/SkyTeam duopoly's continuing exercise of market power.

**Documents To Be Provided:**

1. Privilege log identifying and describing all withheld documents, including previously submitted documents, as required by 14 C.F.R. § 303.04(h).

2. All updated and unredacted documents, including appendices, regarding the following topics:
  - Alliance meetings and board or individual carrier meetings (similar to IB 0441, IB 1294, BA 000635-000743, BA 000744-000813, AA 01447-01492, AA 01506-01516, AA 02239-022543, and AA 02698-02703);
  - Middle East and South Asia routes (similar to AA 01069-01103)
  - Transatlantic routes (similar to AA 00944-00964, AA 02253-02285, AA 01539-01546, AA 02192-02217, and AA 02461-02465);
  - Forecasts for Gatwick and Heathrow transatlantic service, including those forecasts focused on decisions to serve one airport over the other;
  - Individual carriers' transatlantic route analyses (similar to AA 02251-02252, AA 01219-01263, AA 00964-01019, and AA02466-002470);
  - Alliance management issues (similar to AA 01042-01061, AA 01556-01567, AA 02383-02385, AA 02471-02487, AA 01116-01117, AA 02471-02487);
  - Formula and methodology for calculating public benefits (beyond page 7 of the Joint Application and exhibits JA 17, JA 18, and JA 19); and
  - Bankruptcy documents (similar to BA 001506 and BA 001718).
3. All updated documents (similar to BA 00153) which discuss and/or quantify the economic benefits of Iberia's participation in the JBA.
4. All documents discussing the proposed or potential mergers of British Airways and Iberia, on the one hand, and British Airways and Qantas, on the other hand, drafted in connection with alliance issues or joint ventures between or among any of the parties.
5. All documents that incorporate any reference to any preference of air carriers or travelers for use of Heathrow airport over any other UK airport, including but not limited to any studies assessing or describing or noting any actual or potential economic advantages to any Joint Applicants for serving Heathrow, rather than Gatwick or other UK airports (beyond JA-26). Provide similar documents for preferences for JFK International Airport over any other New York airport.
6. All documents that comment on potential constraints on operations at JFK International Airport and Newark Liberty International Airport and the ability of competing carriers to launch competing international service to or from JFK to markets served by the oneworld alliance. Provide similar documents for potential constraints on operations and access by competitors at Heathrow and Gatwick airports.

The Joint Applicants are separately producing documents responsive to these requests on a confidential basis under 14 C.F.R. § 302.12.

Clarification Questions:

1. Given an independent firm's intrinsic orientation to act purely in its own economic interest, and the joint venture participants' express goal in the JBA of aligning economic interests to achieve metal neutrality and deliver significant consumer benefits (Recitals § 7), explain:
  - (i) Why the JBA divides the pricing and capacity planning functions by route group (§ 3.3, 5.6) versus directionality of traffic flows, which is typical of airline alliance agreements;
  - (ii) How the JBA's division by route group fosters individual airline decisions designed to maximize the value of the alliance, thereby producing consumer benefits, rather than simply strengthening the individual carriers in their home markets;
  - (iii) How individual parties' decisions regarding capacity growth in their own networks would impact capacity growth in the alliance as whole; and
  - (iv) What the role of the governing committees (§ 4) would be in the areas of pricing and capacity planning in light of the final decision-making authority given to each party in its respective route group (§§ 3.3, 5.6).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

2. Describe the steps you plan to take to "close the transatlantic gap" in the frequent flyer plans of American and British Airways (BA 000917), given that the JBA envisions, but does not require, harmonization of the two competing plans (JBA § 6.1).

For years, members of American's AAdvantage and British Airways' Executive Club frequent flyer plans have suffered from the "transatlantic gap" resulting from the lack of antitrust immunity. Currently, neither carrier is commercially willing to allow FFP members to earn or redeem miles on transatlantic flights operated by the other carrier. While the JBA does not provide for a merger of frequent flyer programs, the creation of metal neutrality will eliminate the commercial disincentives currently preventing the transatlantic gap from being closed.

The process envisaged by the Joint Applicants is relatively simple.

[REDACTED]

[REDACTED]

**3. Describe your plans for joint international product development as well as expectations for the improvement of each party's product by virtue of the alliance cooperation envisioned by the Alliance Agreements and the JBA.**

Because the JBA participants currently lack antitrust immunity, it would have been legally imprudent and commercially impractical to discuss or develop specific plans for joint international product development. The parties generally anticipate that product differences will exist in the early days of the JBA. Over time, and as the **oneworld** brand matures, the JBA participants anticipate the harmonization and enhancement of their joint international services. What has not been decided at this point is the extent to which the parties will continue to offer different products across the different brands in the long run.

By way of example, American's and Iberia's business class customers currently receive electronic noise cancelling audio for use during flight, which are in the process of being introduced at British Airways. British Airways' first class customers receive pajamas on their flight, while American's and Iberia's do not. It is likely that all three carriers will eventually offer noise-cancelling technology and pajamas to their customers, as they will be able to engage in the joint purchasing and development of products necessary to meet customer expectations. However, it is also possible that the parties may decide to maintain certain brand differences to provide consumers with additional choice in the marketplace.

4. Describe the steps you plan to take to achieve fare combinability under the JBA (see § 5.8), and the estimated timeframe to complete the task. Explain whether you plan to harmonize or map your CRS fare classes and revenue management buckets and provide existing documentation on the harmonized fare and revenue management buckets, as well as proposed mapping of selling and booking classes based on their dollar value and restrictions.

As members of oneworld, the JBA participants already have full fare class mapping. Thus, fare combinability will require only the addition of a rule in each carrier's tariffs providing that all fares within the JBA's scope are fully combinable with those offered by the other two carriers. With metal neutrality, each carrier will have the incentive to make these rule changes. Fare combinability should be achievable within the same timeframe anticipated for implementing the JBA as a whole).

5. Given the structure of the JBA (see Schedule 1, pages S-2 and S-3), which contemplates pooling revenues and certain limited costs, please explain:
  - (i) whether and to what extent the joint venture participants plan to include additional costs, beyond those itemized in Schedule 1 of the JBA, in the arrangement in the future, and
  - (ii) the benefits and detriments of pooling those other costs for the participating airlines and consumers given economic, political, and contractual constraints faced by global airline alliances.

[REDACTED]

6. Describe your plans to cooperate in the transportation of cargo, including but not limited to the names of parties who intend to cooperate and the scope of their planned cooperation. Discuss the progress of dialogue referenced in AA 0297, AA 02992, and BA 001503.

[REDACTED]

7. Describe the commercial considerations of including current antitrust immunity partners Royal Jordanian and Finnair and current oneworld member Qantas in future iterations of the JBA.

The JBA is necessary to create metal neutrality among its participants to counteract their inherent incentives to divert traffic - at the expense of overall network efficiency - to their individual transatlantic services. In contrast, there are few if any such incentives for Royal Jordanian or Finnair given the structure of their networks, and the JBA should allow all five carriers to act together as the risk of diversion will be low.

[REDACTED]

8. Iberia CEO Fernando Conte has stated that two mergers may be too complex to successfully complete, while Qantas CEO Alan Joyce noted that only one of the mergers (Iberia or Qantas) could take place. Discuss the status of the proposed or potential mergers of British Airways and Iberia, on the one hand, and British Airways and Qantas, on the other hand, within the framework of the JBA and its implementation.

British Airways and Qantas announced on December 18, 2008 that they had called off their plans for a merger. This eliminates potential concerns about complicating the proposed British Airways/Iberia transaction. However, the JBA is designed to operate successfully whether British Airways and Iberia are separate carriers or are under common ownership. Thus the implementation of the JBA will be unaffected by any potential mergers.

9. How would the structure and operation of the JBA be changed with regard to pricing and capacity planning in the event of a British Airways-Iberia merger, which adopts a corporate structure other than two operating entities under one holding company? In particular, in that scenario who would have the lead responsibility for U.S.-Spain pricing and capacity decision making?

[REDACTED]

10. The Department understands that the Joint Applicants are seeking global antitrust immunity. Given the JBA's scope, which is limited to transatlantic markets, describe:
  - (i) the plans for future cooperation between and among all parties on non-transatlantic routings, and
  - (ii) the consumer benefits attributable to antitrust immunity that have been or will be created by cooperation on non-transatlantic routings.

Global antitrust immunity will enable the parties to engage in joint global corporate dealing, joint account management, and a more integrated approach to schedules and networks even outside the JBA's scope. Unlike SkyTeam (which had more than one U.S. member prior to the Delta/Northwest merger), or Star (which seeks to add Continental to a 10-way antitrust



immunity that includes United and Air Canada), **oneworld** has only one North American member - American. That means that while global immunity for SkyTeam or Star has a potential impact on existing competition on U.S.-Asia and U.S.-South America routes, it would have no such effect once granted to **oneworld**.

[REDACTED]

11. Explain what regulatory authority, if any, you believe is necessary to obtain from foreign countries to fully implement the Alliance Agreements within the timeframe suggested in your application. In your answer, describe the nature of the regulatory process, its estimated duration, and the extent to which the proposed alliance will be limited absent the foreign regulatory authority, for both broadening coverage in the transatlantic markets, and serving markets to/from the rest of the world, particularly since global immunity is requested.

The Joint Applicants are currently engaged in discussions with the European Commission (as are Star and SkyTeam) concerning the compatibility of the proposed transaction with the EC Treaty, consistent with the Commission's procedures. The Joint Applicants are hopeful that the Commission's investigation will be completed by mid-2009. In any case, the Joint Applicants believe that the transaction is consistent with Article 81(3) of the EC Treaty.

12. Given the existence of the American/Lan Airlines/Lan Peru alliance, which would overlap with the proposed oneworld ATI alliance in U.S.-South America markets, describe your plans to:
- (i) Manage traffic flows to/from South America and how those plans affect Miami and Madrid as potential connecting hubs;
  - (ii) Reconcile the two alliances in light of the terms of the JBA, which give Iberia final decision-making authority over pricing and capacity planning in U.S.-Spain markets (§§ 3.3, 5.6);
  - (iii) Include affiliates of the Lan Group into the oneworld ATI alliance and the estimated time frame of those plans; and
  - (iv) Prevent the unauthorized disclosure of competitively sensitive information between affiliates of the Lan Group and the oneworld ATI alliance members.

The proposed alliance will not have any overlap with the American/Lan Airlines/Lan Peru alliance in U.S.-South America markets. The JBA includes traffic between North America and Europe - not the U.S. and South America. Nor do the five Joint Applicants compete on U.S.-South America routes. Moreover, American is the only one of the Joint Applicants that operates between the U.S. and South America with marketable service.<sup>1</sup> As a result, there is no real overlap between the two alliances.

[REDACTED]

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<sup>1</sup> While British Airways or Iberia could theoretically serve U.S.-South America routes over their European hubs, such routings are commercially unrealistic. For example, MIA-MAD-SCL operated by Iberia (11,071 miles) has 269% circuitry compared to nonstop MIA-SCL service operated by American or LAN (4,117 miles).

[REDACTED]

13. While American and Finnair received antitrust immunity in Order 2002-7-39, the Joint Applicants claim that additional public benefits will be achieved through additional connectivity via Helsinki as a result of approval of this application. Explain the additional commercial benefits that would be achieved and have not already been achieved (similar to Exhibit JA-14, pages 1 and 3) in beyond-Helsinki markets through implementation of the Alliance Agreements and JBA presented in this application.

The American/Finnair alliance was immunized in 2002, but its limited size and scope are insufficient to form a backbone for oneworld in transatlantic city-pairs. While the expanded benefits of beyond-Helsinki connectivity may not be the primary focus of this alliance, they do exist. For example, by adding British Airways, Iberia and Royal Jordanian to the immunized network, all five carriers will be better able to market service on each other. Expanded U.S.-Helsinki service may therefore become commercially viable.

14. The Joint Applicants have asserted that the competitive environment in the U.S.-UK market has changed following the provisional application of the U.S.-EU Air Transport Agreement on March 30, 2008.
- (i) Provide a competitive analysis, using internal data provided pursuant to Data Request #1 to assess premiums and fares in all U.S.-UK airport-pair markets served by the Joint Applicants, to support the Joint Applicants' belief that "there is no reason to conclude that in the new open skies environment any carrier will be able to exercise market power on any U.S.-London route."<sup>34</sup> The analysis should cover the period from July 1, 2006 through the provisional application of the U.S.-EU Air Transport Agreement and the date of issuance of this order;
  - (ii) Explain why consumers would perceive service (a) from Gatwick to be equivalent to, or an acceptable substitute for, service from Heathrow in any market. For example, provide a competitive and commercial analysis, using data provided in Data Request #1 and internal data to demonstrate that the yields, revenues, and enplanement performance of the recently-launched London Gatwick (LGW) - New York (JFK) nonstop service are comparable to those for Heathrow-JFK nonstop service; and
  - (iii) Assess how competing carriers would be able to introduce new U.S.-London service to/from Heathrow, EWR, and JFK, commenting specifically on the availability of slots at each airport at peak hours (beyond JA-26).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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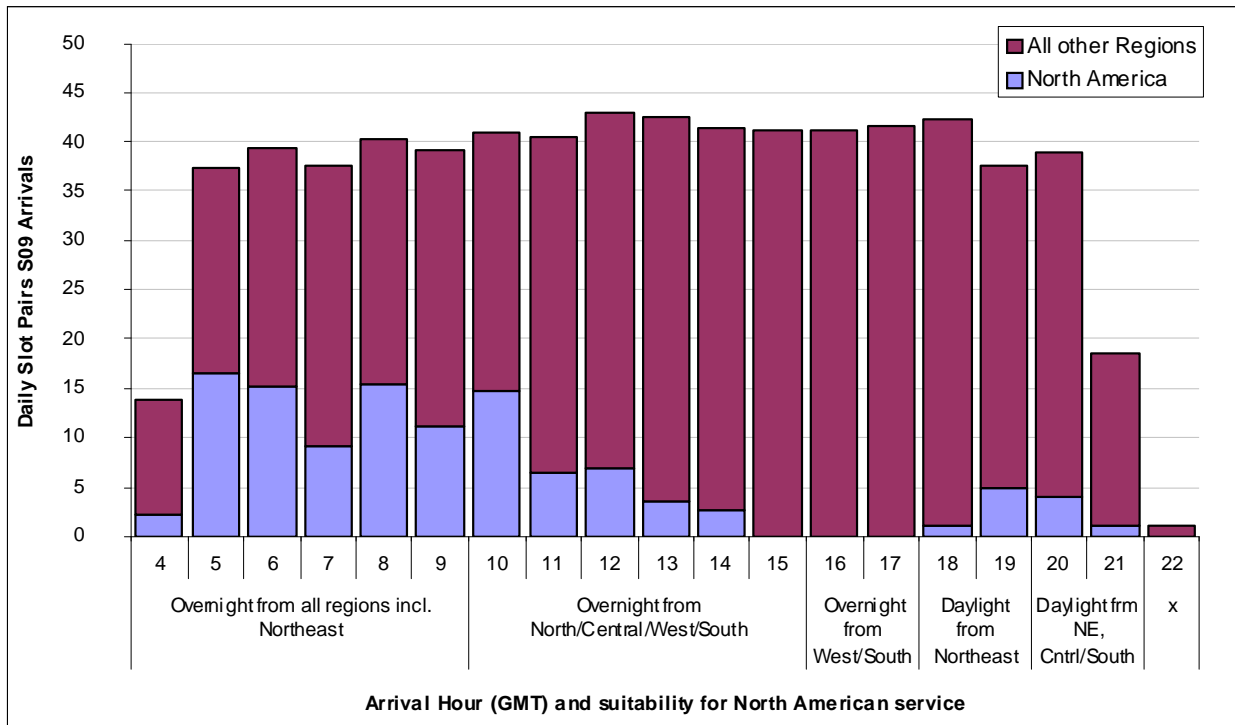


[REDACTED]

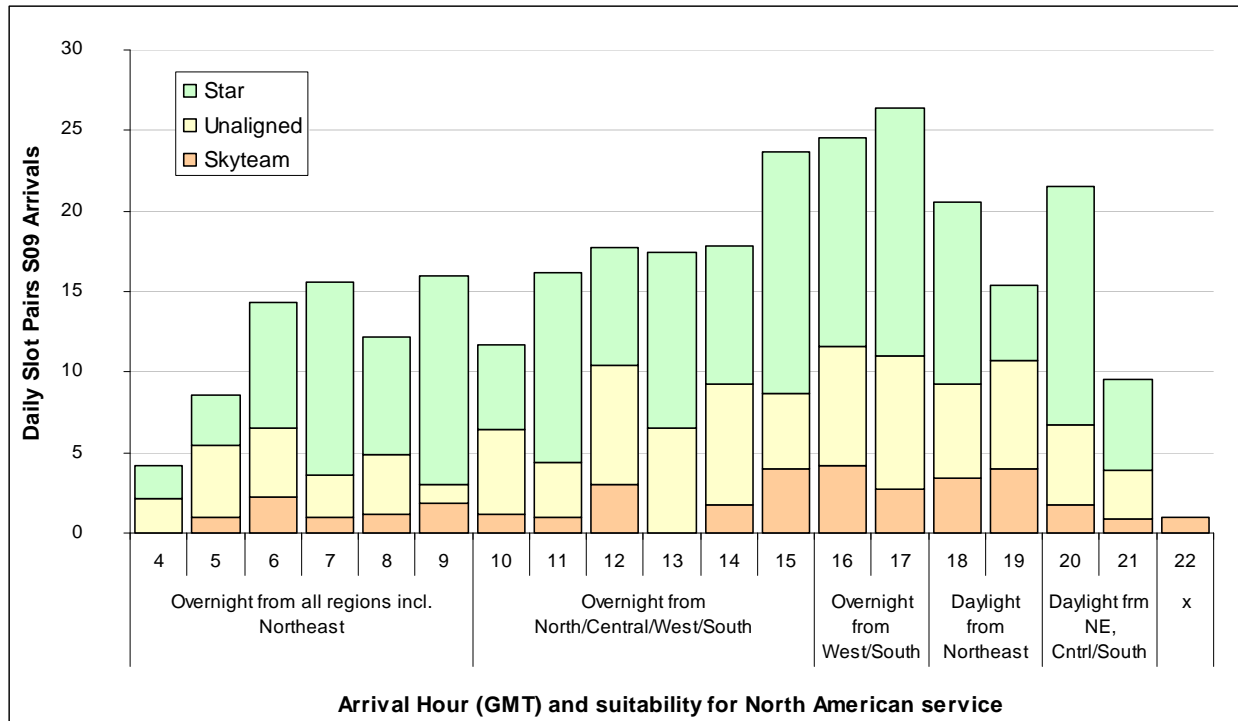
(iii) Heathrow slots are available for launching new U.S.-UK service. Almost any departure slot is a viable time for a North American service; the real constraint is on suitability and availability of arrival timings. For example, overnight services from North America have to depart before airports close for the night and arrive after Heathrow opens. This means that services from the Northeastern US and Canada have the shortest time window (0400 to 0900 GMT in summer seasons), while services from North/Central/West and Southern America (with longer flight times) can arrive into London later, up to 1500 GMT depending upon the origin.

For some U.S. and Canadian stations there is a second timing option, where aircraft leave as the airport opens and fly during the day, arriving into London before the UK airports close, typically arriving between 1800 and 2100 GMT.

The chart below shows industry Summer 2009 arrivals into Heathrow by point of origin, and demonstrates that: (a) the transatlantic window is very broad, with just 4 of the 19 hourly intervals lacking North America-UK service; and (b) there are sufficient arrival slots in peak hours that are not already allocated to North American routes:



The next chart shows Heathrow slot holdings by alliance (other than **oneworld**) and allocated to non-North American routes, i.e. those that could be redeployed and/or traded by non-**oneworld** airlines to generate the arrival slots needed for more U.S.-UK services:



The chart below shows which airlines are significant holders of the slots shown in the previous chart, i.e. those airlines with arrival slots suitable for U.S.-UK service that are not currently deployed on transatlantic routes. The count is for allocated daily slots for the Summer 2009 season:

Star		SkyTeam		Unaligned	
bmi <sup>2</sup>	78 2/7	KLM	11	Aer Lingus	20 6/7
Lufthansa	29 4/7	Alitalia <sup>3</sup>	8 6/7	Virgin Atlantic	10 2/7
SAS	19 5/7	Air France	7	Emirates	5
TAP	6 2/7	Aeroflot	2 6/7	Qatar	4
Swiss	6	CSA	2 6/7	Etihad	3 3/7
Others	29	Others	2 3/7	Others	45
<b>Total</b>	<b>168 6/7</b>	<b>Total</b>	<b>35</b>	<b>Total</b>	<b>88 4/7</b>

The following conclusions can be drawn from this data:

- In every suitable hour there are slots not used for North American services that could be and that these slots are held by airlines in the Star and SkyTeam alliance groups; and
- Almost 90 daily suitable slots are held by unaligned airlines.

Airlines with Heathrow slots (like Air France), with immunized alliance partners (like Delta and Northwest) or with the willingness to buy slots on the secondary market (like Continental and US Airways) have all been able to launch new U.S.-UK service in the past year.

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<sup>2</sup> bmi has been taken over by Lufthansa, and there is widespread speculation that Lufthansa will sell off parts of the business, including Heathrow slots.

<sup>3</sup> Alitalia recently sold three pairs of Heathrow slots, and in the process of its sale to investors may sell more on the secondary market.

In fact, there has been so much new capacity added to U.S.-London routes that it is not at all clear that there is even a current need for more new entry. To the contrary, ACL has told the Department that a lack of unmet demand - not slots - is the greatest constraint on further new entry at Heathrow. Despite campaigning for U.S.-EU Open Skies, and having nearly four score of suitable Heathrow slots, bmi has still chosen not to launch new U.S.-Heathrow service a full year after the agreement went into effect.

Similarly, while SkyTeam has the ability to launch even more new service with the several dozen Heathrow slots in the transatlantic window that it currently operates on short-haul intra-EU routes, it has chosen not to do so. This is despite the fact that SkyTeam explicitly promised such new entry to the Department in DOT-OST-2007-28644:

"Additional access to Heathrow Airport beyond the access available under the separate Delta/Air France and Northwest/KLM 2-way Joint Ventures (by linking Northwest with Air France and Delta with KLM), producing even more competition against Star and oneworld . . . . These significant public benefits are not illusory . . . but are very real" (SkyTeam Joint Reply, DOT-OST-2007-28644, 11/27/07, p. 9, emphasis added).

SkyTeam's commitments should not be forgotten now that SkyTeam has become a fully integrated and immunized alliance between the world's two largest airlines. To be clear, SkyTeam was not referring to the intra-alliance transfers it had already made between Delta/Air France and Northwest/KLM. This was an explicit promise of more transfers in the future if the Department granted SkyTeam expanded antitrust immunity. Yet when Northwest cancelled its Seattle-Heathrow service, it returned the slot to KLM, which now uses it to operate service to Rotterdam.

15. Given the commercial goals of the JBA and the proposed benefits to consumers that would result, explain:
- (i) How metal neutrality can be achieved without terminal co-location at Heathrow; and
  - (ii) What flexibility you have to adjust facilities use at Heathrow to accommodate your alliance plans.

(i) Airport co-location is not a prerequisite to metal neutrality, whether one looks at Heathrow or any other airport. By creating metal neutrality, the JBA will give the Joint Applicants an incentive to shift certain services between Terminals 3 and 5 at Heathrow when that becomes practical. However, to the extent American is not able to operate transatlantic service from Terminal 5, consumer preference for within-terminal connections does not mean the JBA will lack metal neutrality. To the contrary, JBA customers will gain the ability to choose based on their preferences. For example, absent antitrust immunity, American's FFP members connecting at Heathrow would have to choose between: (a) flying the transatlantic segment on American to earn AAdvantage miles; or (b) flying the transatlantic segment on BA and not earning AAdvantage miles, but connecting within Terminal 5. With the JBA, the FFP gap will be closed, and those consumers will be free to choose an itinerary based on schedule and price - and not driven by FFP membership.

With or without the JBA, oneworld's transatlantic service at Heathrow would be split between Terminals 3 and 5. However, American would be at a competitive disadvantage for connecting traffic over Heathrow without antitrust immunity, as the need for transfers between Terminals 3 and 5 would both limit connecting opportunities and be less attractive than within-terminal transfers. Hopefully this will be reduced over time, as BAA creates enhanced connectivity between Terminal 5 and the Central Area (currently Terminals 1-3). With antitrust immunity, the JBA participants will be able to optimize connectivity, incentivizing consumers with three

hours or more between flights to transfer between Terminals 3 and 5, opening up seats for those with shorter connections to stay within Terminal 5. The parties may find that consumers are willing to pay for the added convenience of within-terminal transfers, making additional discount space available for between-terminal transfers. Immunized integration will allow **oneworld** as a whole to provide much stronger connectivity at Heathrow to compete with SkyTeam and Star in Paris, Frankfurt and Amsterdam.

(ii) Unlike Star, SkyTeam and unaligned carriers (which all enjoy the benefits of operating from the same terminal at Heathrow), **oneworld** will by necessity be split between Terminals 3 and 5. Currently, British Airways is the only carrier operating from Terminal 5, while all five Joint Applicants operate from Terminal 3.<sup>4</sup> To the extent that shifting service from Terminal 3 to 5 makes commercial sense, the JBA gives its participants an incentive to facilitate such co-location by creating metal neutrality. Such flexibility is critical for **oneworld** to maintain Heathrow as an effective competing hub for transatlantic traffic.

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<sup>4</sup> British Airways flights will eventually be split between Terminals 3 and 5, but some (including flights to Madrid, Helsinki, Lisbon, Nice, Bangkok, Singapore and Sydney) still currently operate out of Terminals 1 and 4 as airport relocations are completed. Other **oneworld** carriers are also still in the process of relocating into Terminal 3.

16. Describe the applicable rules and constraints in the operating environment at London airports that prevent you from converting any and all slots from usage by narrow-body aircraft to usage by wide-body aircraft. If you have flexibility to make conversions, estimate the percentage of your slots at each London airport, including Heathrow specifically, that could be converted.

The only formal constraints on changing slots from narrowbody to widebody aircraft (aside from runway clearance itself) are passenger flow restrictions within the airport terminals. These restrictions are measured in hourly and half-hourly (T60/T30) increments, and are managed by the slot coordinator. The slot coordinator also provides a facilitation service for aircraft stands at LHR, allowing airlines to adjust their schedules to balance stand demand.

While there are some limits on widebody stands in Terminals 1/2/3 (Central) and 5, they are only at peak times and generally only require minor changes in the schedule (+/- 30 minutes at most). At times, aircraft with long ground times are towed to remote parking stands in order to resolve on-pier stand constraints. Additionally, the opening of Terminal 5 released a great deal of capacity throughout LHR, and it is now Terminal 5 that has the most stand-related constraints. In an attempt to remedy this, British Airways alone has invested £12 million in providing additional parking stands on its engineering base at the airport to help ease parking stand constraints.



In Summer 2008, British Airways acquired two short-haul slot pairs from other airlines through secondary trading, and converted these two - and another of its own - from short-haul to long-haul. SkyTeam's new transatlantic service was launched with slots previously used for flights to Paris and Rotterdam. Thus, the Joint Applicants are unaware of any terminal and apron constraints that have prevented a successful secondary trade from a narrowbody operator to a widebody operator. Moreover, narrowbody transatlantic operations to Heathrow are being launched, such as Continental's Newark-Heathrow and Cleveland-Heathrow services using Boeing 757 aircraft.

17. **Provide each applicant's estimated percentage of total revenue, total premium revenue from corporate and travel agency contracts, and total premium revenue, in transatlantic markets and, specifically, in individual U.S.-UK airport-pairs, as well as an assessment of the industry's overall revenues in each of the aforementioned categories.**

[REDACTED]

[REDACTED]

[REDACTED]

18. Describe the frequency of service needed in U.S.-Heathrow markets to obtain corporate and travel agency contracts? To what extent are corporate and travel agency customers indifferent to Heathrow versus Gatwick service from U.S. points of origin?

There is no set level of service required in U.S.-Heathrow markets in order to compete for corporate and travel agency contracts. Many large agencies and corporate customers are focused on global networks - making the number of frequencies much less relevant. Even for U.S.-UK focused customers, the number varies by city-pair. Depending on the size of the local market and connectivity on both ends of the route, just one frequency per day might be supported. Even in the denser local markets where multiple frequencies can be operated - like New York, Los Angeles and Chicago - competition for corporate and agency business will remain intense even after the proposed alliance is approved, as consumers will still have far more options to London from those cities than they do to Star and SkyTeam hubs in Europe.

With regard to consumer preference for Heathrow or Gatwick, while "indifference" might help establish that two airports are in the same market, it is not the appropriate test for a relevant antitrust market for purposes of the Department's competition analysis. The issue is substitutability; specifically, it is the response of the marginal consumer which is most important. Thus, even if there is a consumer preference for Heathrow, if enough marginal consumers would switch to Gatwick service due to a 5-10% increase in fares at Heathrow (the "small but significant and non-transitory increase in price," or SSNIP), then a fare increase only at

Heathrow would not be profitable and Heathrow and Gatwick would be in the same relevant antitrust market. As Exhibit JA-26 to the Joint Application showed for the final year of Bermuda II, American only earned a 2.4% Heathrow premium for passengers buying first, business or unrestricted economy class tickets from cities with comparable service to both Heathrow and Gatwick (as set forth in more detail in response to Question 14(ii)).

**19. Provide detailed discussion of the following:**

- (i) Whether your interline traffic with airlines that are not part of the oneworld alliance has declined over the past three years, and, if so, the extent to which such declines are attributable to less favorable prorated terms for airlines that are not part of the oneworld alliance;
- (ii) How the terms of your interline agreements with airlines that are not members of the oneworld alliance have changed over the past three years when compared with your interline agreements with airlines that are members of the oneworld alliance;
- (iii) Whether you plan either to reduce the number of airlines that are not part of the oneworld alliance with which you maintain interline agreements, or otherwise to reduce (either contractually or through inventory availability) the numbers of passengers you carry on an interline basis with airlines that are not part of the oneworld alliance given the growth and capacity agreements presented in the Joint Business Agreement (Section 3.3, pages 5-6); and
- (iv) Whether any changes to your interline practices and policies vis-à-vis carriers that are not part of the oneworld alliance are contemplated.

(i) American: In approving the Air France/KLM merger, the European Commission relied upon interline traffic to provide a "competitive constraint" on the immunized alliance duopoly that exists between Star and SkyTeam. After that merger was approved - and just days after filing for antitrust immunity with Delta, Northwest, KLM, Alitalia and CSA in 2004 - Air France began systematically eliminating interline competition from non-

SkyTeam carriers. Specifically, Air France restricted inventory availability to American and other non-SkyTeam carriers while imposing discriminatory prorate terms. As a direct result, American's interline traffic on Air France went down 90% year-over-year. American has not reciprocated in kind.

British Airways: BA has data regarding interline itineraries dating back to May 2005. Thus, it is possible to compare interline traffic to the prior year for the period May 2006 to October 2008.

[REDACTED]

Iberia: Interline traffic with airlines that are not part of the **oneworld** alliance has declined over the past three years, but this decline cannot be attributed to an Iberia policy related to Iberia belonging to **oneworld**.

First, prorate terms are established on a bilateral basis. During any given period, such terms might become more favorable relative to one airline and less favorable relative to another. Because prorate terms are in flux, determining the overall impact would require an extensive analysis of all prorate arrangements and even then could yield inconclusive results, particularly when the decline in interline traffic can be traced to other causes.

Second, Iberia has been discontinuing routes out of Barcelona since 2007; the company's decision in that regard has had an impact on interlining with airlines operating to that airport. Also, implementation of interline e-ticketing has in some measure reduced interlining.

Finally, Iberia's experience has been that when an airline joins the Star Alliance, for example, it immediately informs Iberia that it is canceling its codeshare and frequent flyer arrangements with Iberia. Naturally, canceling such arrangements also has a negative impact on the interline volume.

Finnair: Interline traffic with non-**oneworld** airlines has declined during the past few years. However, this decrease does not result from Finnair's **oneworld** membership or any policies related to **oneworld**. Finnair believes the reasons for the decline are the same as those set out in Iberia's answer.

First, during the last few years Star and SkyTeam seem to have imposed restrictions concerning their members' codeshare and frequent flyer cooperation with carriers in competing alliances. This has translated into reduced interline traffic between Finnair and certain carriers who have joined Star or SkyTeam within the past three years. Such negative impact is most visible in Europe where the presence of Star and SkyTeam is strong.

Second, Finnair also believes that the other major reason for declined interline volumes is IATA's decision to give up the paper ticket documents and move over to interline e-ticketing. It was not possible to put in place e-ticketing agreements with all the carriers with whom Finnair used to have a prorate agreement. Thus, a number of prorate agreements had to be cancelled and this has resulted in reduced interline volumes.

(ii) American: American has not signed many new interline agreements over the past three years, focusing instead upon improving the quality of what is delivered in its existing agreements, including a conversion of such agreements from paper to electronic ticketing. American has amended its agreements to require affirmation of IATA standards on the involuntary rerouting of passengers, participation in one of the two industry clearinghouses. American has also required interline partners to support automation features that facilitate improved accuracy and efficiencies in the interline accounting process. This included an option to charge fees for inaccurate or incomplete data feeds, or the use of shortcut forms to



reroute passengers (rather than preparing new automated tickets). These changes are all intended to help reduce American's processing costs. American has also begun requiring periodic review of some interline agreements to ensure that the parties are using best practices, rather than simply having evergreen agreements that tend to become outdated and drive up costs.

British Airways: The terms of interline agreements among **oneworld** member carriers have remained unchanged over the last three years. Similarly, British Airways has generally not made changes to the terms of its interline agreements with non-**oneworld** airlines, subject to the following exceptions:

- Some minor ad hoc changes to settlement terms through Special Prorate Agreements have been mutually agreed to with other carriers

[REDACTED]

- In August 2008, Delta - now the world's largest airline and a member of SkyTeam - blocked all British Airways fares from interlining across the Delta network. British Airways asked Delta to explain its action, but received no response. Accordingly British Airways blocked Delta fares from the British Airways network in September 2008.

Iberia: Iberia maintains an open interline policy - regardless of an airline's alliance affiliation or non-affiliation - to assure the best possible connections at a reasonable cost to its customers. Thus, Iberia has reciprocal interline arrangements with numerous airlines, including both oneworld and non-oneworld airlines. Iberia has a strong incentive to preserve the latter arrangements, since there are many O&D markets in which Iberia has an interest that currently are not served or are underserved by oneworld.

Iberia cannot identify any particular trend with respect to its interline agreements with non-oneworld airlines, relative to its interline agreements with oneworld airlines. Iberia examines arrangements that result in little additional business and modifies such arrangements if they involve high costs. Thus, Iberia has modified some agreements with non-oneworld airlines due to constraints on the implementation of electronic ticketing with such airlines (interlining cannot be readily accommodated if one airline has e-ticketing functionality while the other does not). Also, some small-volume agreements have been canceled because they did not yield sufficient revenues to compensate for the costs involved. Others are still being evaluated for cost effectiveness.

Finnair: Due to Finland's geographic location, it is crucial for Finnair to be able to sell interline networks and thus to have in place interline agreements with both oneworld and non-oneworld airlines. There are no particular changes to the terms of interline agreements with non-oneworld airlines as compared to those with oneworld airlines. Regardless of the fact whether the interline partner is a oneworld airline or a non-oneworld airline, Finnair seeks to establish commercially beneficial terms in its prorate agreement negotiations with interline partners.

(iii) American: American is seeking to increase - not reduce - the number of interline agreements that it has with non-**oneworld** carriers. While American began limiting its participation in these agreements in 2001 in an effort to reduce costs, improved automation has made it more commercially viable to enter into these agreements.

British Airways: BA has no incentive or current plans to reduce the number of interline agreements it currently maintains. BA has no current plans in place to reduce the number of passengers it carries whether through contractual or inventory-based interline availability. **oneworld** and its members can be expected to continue making the most profitable interlining decisions possible.

Iberia: There are no plans within Iberia or contemplated by the JBA either to reduce the number of non-**oneworld** airlines with which Iberia maintains interline agreements or to reduce the number of passengers Iberia carries on an interline basis with non-**oneworld** airlines.

(iv) The Joint Applicants do not contemplate any commercial changes to their interline practices and policies with non-**oneworld** carriers. Unlike Star, which is known to have a "hygiene policy" forbidding its members from engaging in codesharing or FFP relationships with current and prospective members of other alliances, **oneworld** carriers frequently engage in such relationships, which are important to interlining. Even without those relationships, both American and British Airways interline with Virgin Atlantic. In fact, despite the contentious nature of Virgin Atlantic's relationship with British Airways, Virgin is British Airways' biggest source of interline bookings. As **oneworld** improves the integration of its network, an increasing number of passengers will be attracted from the existing Star/SkyTeam duopoly. In addition, the Joint Applicants anticipate a

reduction in interlining with Star and SkyTeam carriers as those alliances continue to discourage or exclude interlining outside their own networks. Unlike Star, **oneworld's** goal is not to preclude joint marketing relationships outside the alliance to the extent that they are consistent with its goals.

American: American is currently working to improve the accuracy and availability of information shown to airline users of the SHARES CRS (Continental, US Airways, Virgin Atlantic and others). American is also working to streamline the procedures used for involuntary rerouting of customers - both within **oneworld** and with other interline partners. American intends to review the policies and procedures used for passengers who purchase separate tickets for through carriage, rather than buying and presenting a single interline ticket. American is also reviewing ways to make consistent baggage fee collection possible on interline itineraries. Finally, American intends to create a more effective tool to screen bookings for the inclusion of a downline carrier with which American has no interline relationship.

British Airways: British Airways has no plans to change its interline practices with any airline solely on the basis of that carrier not being a member of the **oneworld** alliance.

Iberia: Iberia does not contemplate any changes in its interline practices with non-oneworld airlines as a result of the proposed alliance.

Finnair: Finnair does not contemplate any changes to its interline practices or policies with non-oneworld carriers.

**Fare Data:**

The Joint Applicants are separately submitting the fare data requested in Order 2008-12-11 (Attachment 1-7) on a confidential basis under 14 C.F.R. § 302.12.

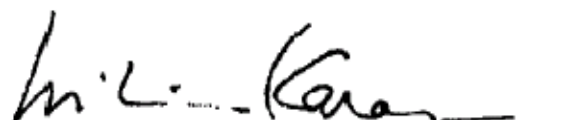
\* \* \*

Respectfully submitted,



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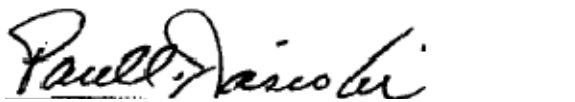


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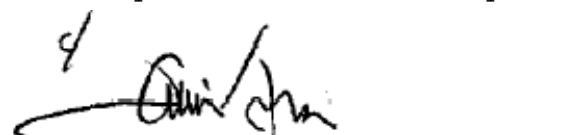
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**BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.**

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Joint Application of:

AMERICAN AIRLINES, INC.

BRITISH AIRWAYS PLC

FINNAIR OYJ

IBERIA LÍNEAS AÉREAS DE ESPAÑA, S.A.

ROYAL JORDANIAN AIRLINES


DOT-OST-2008-0252

under 49 U.S.C. §§ 41308 and 41309 for  
approval of and antitrust immunity for  
alliance agreements  
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**CERTIFICATION**

I, Henry C. Joyner, hereby certify as follows in my individual capacity and as the authorized representative of American Airlines, Inc. ("American"):

1. I am Senior Vice President - Planning for American Airlines.
2. Pursuant to Title 18, United States Code, section 1001, and DOT Order 2008-12-11, the information submitted by American in this Joint Applicants' Consolidated Response To Order 2008-12-11 (Docket DOT-OST-2008-0252) is full, complete, and accurate to the best of my knowledge and belief.
3. I understand that an individual who is found to have violated the provisions of 18 U.S.C. § 1001 shall be fined or imprisoned for not more than five years, or both.

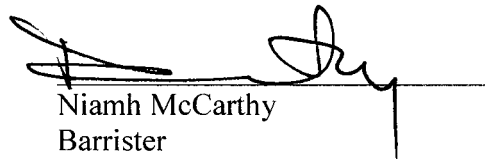
  
\_\_\_\_\_  
Henry C. Joyner  
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March 13, 2009

I have knowledge of the facts and circumstances relating to the responses to the Order Requesting Additional Information, dated December 19, 2008, and hereby certify that to the best of my knowledge the responses are full, complete and accurate.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on March 13, 2009

  
Niamh McCarthy  
Barrister



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BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.

Joint Application of )

American Airlines, Inc. )

British Airways PLC )

Finnair OYJ )

Iberia Líneas Aéreas de España, S.A. )

Royal Jordanian Airlines )

under 49 U.S.C. §§ 41308 and 41309 for )  
approval of and antitrust immunity for )  
alliance agreements )

Docket OST-2008-0252

CERTIFICATION OF IBERIA LÍNEAS AÉREAS DE ESPAÑA, S.A.

I, Elvira Herrero Mateo, hereby certify as follows in my individual capacity and as the authorized representative of Iberia Líneas Aéreas de España, S.A.

1. I am the SVP International Relations & Alliances of Iberia Líneas Aéreas de España, S.A.
2. Pursuant to Title 18, United States Code, section 1001, and DOT Order 2008-12-11, the information submitted by Iberia Líneas Aéreas de España, S.A. in the Joint Response to DOT Order 2008-12-11 issued in the above-captioned docket is full, complete and accurate to the best of my knowledge and belief;
3. I understand that an individual who is found to have violated the provisions of 18 U.S.C. § 1001 shall be fined or imprisoned for not more than five years, or both.

Date: 13 March, 2009



Ms. Elvira Herrero Mateo  
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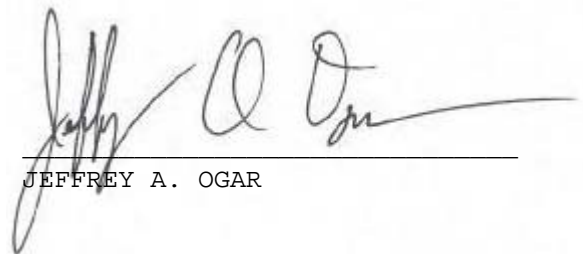


CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by email on the following persons:

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JEFFREY A. OGAR

March 13, 2009